

# Report Card

TEACHERS' FUND FOR RETIREMENT

DECEMBER 2001

## Actuarial Report Shows TFFR Remains Strong



Each year, TFFR's actuary performs an actuarial valuation to describe the financial condition of the Fund, to assess the adequacy of the current contribution rates, and to analyze changes in funding require-

ments. In short, the annual valuation is a mathematical means of determining if the contributions paid by members and employers, along with investment earnings, are adequate to pay the retirement benefits of current and future retirees.

According to the July 1, 2001 report, the member and employer contribution rate of 7.75% each is sufficient to fund TFFR benefits and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 20 years. The margin between the 7.75% statutory rate and the rate necessary to

fund the UAAL is 3.76%. This margin decreased from 6.28% mainly because of the new legislation adopted in 2001.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio last year was 101.6%, while it is 96.4% this year. This decrease is also due to the adoption of the new benefit provisions.

The 2001 actuarial report shows that the plan represents 16,412 active, inactive, and retired members. The average age of active members was 44.4 years, up from 43.9 last year; average service credit was 14.4 years, up from 14.1 in 2000; and average annual salary was \$33,421, up from \$32,223 last year. As of June 30, 2001, 4,777 retirees and beneficiaries were receiving average benefits of \$995 per month which increased to \$1,093 after the July 1, 2001 legislative benefit increase.



**NORTH DAKOTA  
RETIREMENT AND  
INVESTMENT OFFICE**

*Teachers' Fund for Retirement  
State Investment Board*

### **TFFR Board of Trustees** Mark Sanford, *President*

Barb Evanson      Paul Lofthus  
Norman Stuhlmiller      H.L. "Curly" McLain  
Kathi Gilmore      Wayne Sanstead

### **RIO Administrative Office**

Steve Cochrane, *Executive Director/CIO*  
Fay Kopp, *Deputy Director/Retirement Officer*  
Shelly Schumacher, *Editor*

### **ND Retirement and Investment Office**

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*Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.*

## TFFR Board Elects Officers



The TFFR Board at its July meeting re-elected Mark Sanford as Board President and Barb Evanson as Vice President.

*Pictured, left to right, front row: Norman Stuhlmiller, Barbara Evanson, Kathi Gilmore, Harley "Curly" McLain. Back row: Wayne Sanstead, Mark Sanford, Paul Lofthus*

# What Lies Ahead?

*Like you, I've had a lot on my mind lately. In addition to concerns over the September 11, 2001 attack and our nation's war on terrorism, we are beginning to see signs of a slowing business economy. Does a gloomy future lie ahead for TFFR?*



Fay Kopp  
Deputy Executive Director

## **TFFR INVESTMENTS**

If you've followed the investment world lately, you've probably guessed that TFFR investments did not fare well last year. In fact, TFFR investments returned -7.30% for the year ended June 30, 2001. According to Steve Cochrane, RIO Executive Director and Chief Investment Officer, "the State Investment Board did a good job minimizing the damage the markets dished out this past fiscal year. But the net result is still a loss in value to TFFR. We all know that some years come around as pay back for the good ones, and this was definitely one of those payback years." As of this writing, the markets remain weak.

Although TFFR negative investment returns may raise concerns, your retirement plan benefits are secure. TFFR is a well-funded and financially sound plan capable of withstanding short-term ups and downs in the financial markets. TFFR is well diversified in its asset allocation and employs managers with high expertise in managing their assets. TFFR also uses conservative investment accounting practices.

One such conservative practice used by TFFR to help "ease the pain" is known as "smoothing." This practice allows us to average plan asset values over five years so that any one-year performance doesn't have as big an impact on the plan. "Smoothing" adds consistency and dramatically reduces volatility of returns.

## **DEFINED BENEFIT AND DEFINED CONTRIBUTION PLANS**

When the stock market is down, it's not uncommon for TFFR active members and benefit recipients to be concerned about their retirement plan. Fortunately for TFFR members, the ups and downs of the stock market do not directly affect member benefits. This is because TFFR is a defined benefit (DB) plan. In a DB plan, benefits remain steady in the face of market movements.

In a DB plan like TFFR, both active members and employers make retirement contributions which are invested to provide a defined retirement benefit. You do not make the investment decisions; TFFR does. Your benefit is based on a specific formula using your final average salary, total years of service credit, and benefit multiplier (currently 2.0%).

On the other hand, defined contribution (DC) plans are "individual account" plans like IRAs, 403(b) tax deferred annuities, 457 deferred compensation plans, and private sector 401(k) plans. In a DC plan, you decide how retirement contributions are invested, and you take all of the financial risks and rewards. With a DC plan, you are not promised a specific benefit, but are entitled to receive what your account balance will purchase on the day you retire.

Because a DB plan is paid for the member's lifetime (and often for the life of a surviving beneficiary), its value is difficult to convey. A DB plan like TFFR provides retirees with insurance against outliving their retirement resources. This is in contrast to a DC plan which lasts only as long as there is a balance in the account.

## **YOUR RETIREMENT FOUNDATION**

TFFR's goal is to provide members with a base level of retirement benefits equal to 60% of a career teacher's final average salary. Your TFFR defined benefit plan accomplishes this without requiring investment expertise on the part of the employees, and without subjecting your benefits to market volatility risk found in defined contribution plans.

Your TFFR defined benefit plan is the foundation for your retirement income. However, in order to maintain your desired standard of living, we encourage you to supplement your TFFR and Social Security benefits with personal savings and investments.

## **THE FUTURE?**

Undoubtedly, current economic downturns are causing the Fund's investments to decrease in value. And although your current level of benefits is guaranteed, there is no promise to increase benefits in the future for either active or retired members.

The TFFR Board and its actuarial consultant are closely monitoring the plan to determine whether future benefit improvements are affordable. To maintain the financial soundness of TFFR, it appears unlikely that benefit enhancements will be proposed to the 2003 Legislative Assembly.

## Questions & Answers

**Q.** Next year I will not be using the school's health plan and will receive the cash instead. Will this increase my salary for TFFR purposes?

**A.** No. TFFR salary does not include fringe benefits or salary received by a member in lieu of a previously employer provided fringe benefit.

**Q.** I drive the bus for part of each school year. Is the income subject to TFFR?

**A.** No. Bus driving pay is not included in reportable salary for TFFR.

**Q.** If I take unpaid leave during my last year of teaching, will my retirement benefits be affected?

**A.** The answer is probably yes. If you are compensated for at least 700 hours during the fiscal year, you will still earn a full year of service credit. However, if your last salary is one of your high three salaries, the reduction for the unpaid leave will decrease your monthly retirement benefit.

## TFFR Outreach Services

### BENEFITS COUNSELING SESSIONS

Individual 30-minute benefits counseling sessions are available to all members to discuss TFFR benefits and other retirement issues. To schedule an appointment at one of the following locations, contact the Administrative Office at 1-800-952-2970 or 701-328-9885.

Williston	January 9, 2002
Tioga	January 10, 2002
Bismarck	January 15-16, 2002
Minot	January 22-23, 2002
Mohall	January 24, 2002
West Fargo	February 12-13, 2002
Bowman	February 26, 2002

### PRE-RETIREMENT SEMINARS

Pre-retirement seminars are six hour programs held from 4 pm - 7 pm each day. The topics covered are TFFR benefits, Social Security benefits, financial planning, estate planning, and health insurance. To register for a pre-retirement seminar, complete and return the registration form.

Pre-retirement Seminar Sites (please select one):

☐ Fargo - January 30-31, 2002      ☐ Grand Forks - February 6-7, 2002

Name: \_\_\_\_\_ SSN: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Home phone: \_\_\_\_\_ Work phone: \_\_\_\_\_

Will your spouse/guest be attending? ☐ Yes ☐ No

If your spouse/guest is also a teacher, please provide SSN: \_\_\_\_\_

Mail to: ND Retirement and Investment Office  
P.O. Box 7100, Bismarck, ND 58507-7100

## Divorce and Your TFFR Retirement Benefits

Generally, your TFFR account is considered a marital asset and is subject to valuation and division in a divorce. We have created a new brochure to give TFFR members, their spouses, and attorneys information to properly structure a Qualified Domestic Relations Order (QDRO) under North Dakota state law. A QDRO is any judgment, decree, or order affecting a TFFR member's retirement account relating to spousal support, child support, or the distribution of marital property. A sample QDRO model has been developed and should be used by attorneys in drafting a QDRO.



The Divorce & Your TFFR Retirement Benefits brochure can be found on our website or it can be requested from our office along with the model QDRO.

## Administrative Rules Hearing

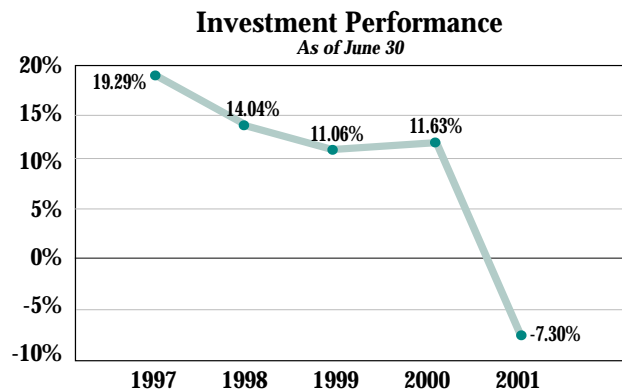
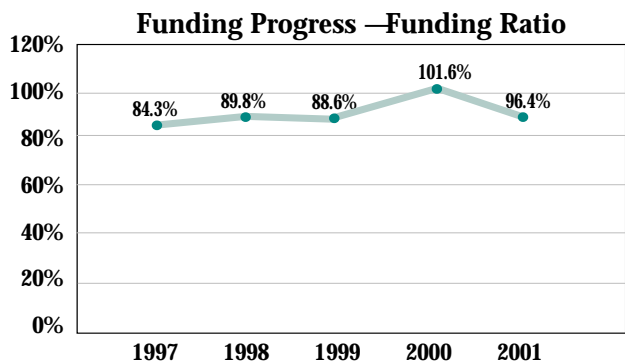
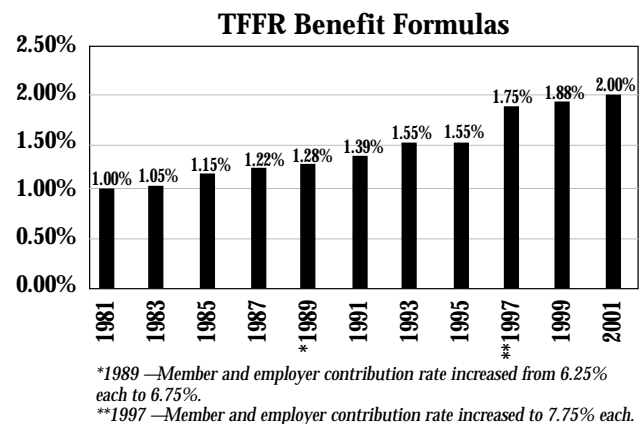
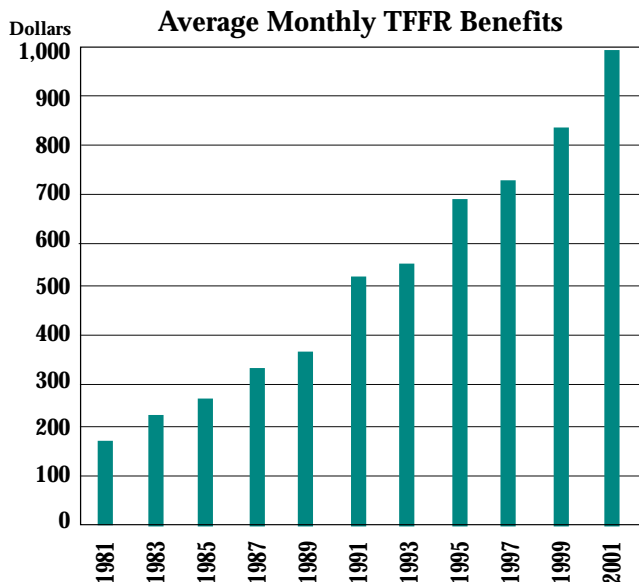
A public hearing has been tentatively scheduled for January 24, 2002, to address proposed amendments to ND Administrative Code Title 82. The purpose of the proposed amendments is to implement state statutes.

The proposed rules address the Teachers' Fund for Retirement payment of survivor benefits; rights to a formal hearing and appeal; and Qualified Domestic Relations Orders.

A copy of the proposed rules may be requested by writing, calling or emailing the Retirement and Investment Office.

# 2001 ANNUAL REPORT SUMMARY

2001 Annual Financial Report available upon request.



## STATEMENT OF ASSETS AS OF JUNE 30, 2001

### ASSETS

Equities	\$ 809,650,401
Fixed Income	241,785,523
Real Estate	139,409,884
Private Equity	56,875,159
Invested Cash	23,529,222
Invested Securities Lending	53,013,503
Receivables	14,542,381
Other Assets	6,057,326
<b>Total Assets</b>	<b>\$ 1,344,863,399</b>

### LIABILITIES

Accounts Payable	\$ 1,014,555
Accrued Expenses	134,634
Securities Lending	53,013,503
Other Liabilities	38,567
<b>Total Liabilities</b>	<b>\$ 54,201,259</b>

**Net Assets on June 30, 2001** **\$ 1,290,622,140**

## CHANGES IN ASSETS DURING FISCAL YEAR 2001

### CASH POSITION

Net Assets on June 30, 2000 **\$ 1,405,246,440**

### ADDITIONS

Member Contributions	\$ 26,289,672
Employer Contributions	26,289,206
Other Additions	1,943,629
Investment Income	(107,138,721)
<b>Total Additions</b>	<b>\$ (52,616,214)</b>

### DEDUCTIONS

Benefits Paid	\$ 57,740,914
Refunds	3,127,841
Administrative Expenses	1,099,331
<b>Total Deductions</b>	<b>\$ 61,968,086</b>

**Net Decrease** **\$ 114,584,300**

**Net Assets on June 30, 2001** **\$ 1,290,622,140**

# Annual Statements - Top 10!

**NORTH DAKOTA RETIREMENT & INVESTMENT OFFICE**  
TEACHERS' FUND FOR RETIREMENT

**RETIREMENT BENEFITS STATEMENT**  
AS OF JUNE 30, 2001

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone: 701-328-9885  
Toll Free 1-800-952-2970  
www.docovernd.com/tfro

**Prepared For:**

JANE TEACHER  
BOX 4173  
BOWDON ND 58418

Social Security Number: 111-22-3333  
Date of Birth: 07/01/1959

**Account Value:**

Account Value is the amount refundable to you if you terminate employment.

Taxed Member Contributions	Tax Deferred Member Contributions	Interest	Account Value
\$5,000.00	\$15,000.00	\$7,000.00	\$27,000.00

Note: Contribution totals reflect amounts paid life-to-date through June 30. Interest is calculated at 6% compounded annually and reflects interest paid through August 31.

**Credited Service:**

Earned Service Credit As of 06/30/2000	2000-01 Service Credit	Purchased Service Credit (paid in full)	Total Service Credit As of 06/30/2001
11.000	1.000	1.000	13.000

**Estimated Retirement Benefits:**

Your Reported TFFR Salary for 2000-01: \$30,000.00

You are a vested member.

Based on your current average monthly salary of \$2,500.00, a benefit multiplier of 2.00% and continued service, your estimated monthly single life annuity retirement benefits are:

Date	Age	Service Credit	Monthly Benefit	Percent of Avg Salary
At Rule of 85:	07/01/2018	59.000	\$1,400.00	56%
At Age 65:	07/01/2024	65.000	\$1,800.00	72%
At Age 62:	07/01/2021	62.000	\$1,650.00	66%
At Age 55:	07/01/2014	55.000	\$988.00	40%

**Disability Retirement Benefits:**

If you become disabled, your disability single life annuity would be based on your average salary times the greater of your total service credit or 20 years, times the current multiplier of 2.00%.

Your current monthly disability benefit would be: \$1,000.00

**Beneficiaries:**

Primary beneficiary(ies) is/are listed below. Contingent beneficiaries, if named, are on file with the administrative office.

JOHN TEACHER

**Benefits:**

Prior to retirement, your beneficiary would be eligible for the following refund of account value:

Lifetime monthly survivor annuity (available only one beneficiary is on file): \$27,000.00

After certain annuity (divided between beneficiaries according to distribution percentages on file): \$468.00

\$650.00

Your annual retirement account statement is designed to help you better understand all the benefits available to you. Here are the top ten items you should review when you receive your statement each August. If you find that your TFFR benefits do not meet your family's needs, please take steps to strengthen your financial position in the event of disability or death.

1. Check your name, address, social security number and birthdate.
2. Amount refundable to you if you terminate covered employment. Account value includes all contributions paid (current rate 7.75% of salary), purchase payments and interest earned.
3. Verify your service credit reported by your employer. (700 hours = 1 year)

4. If currently purchasing service credit, the years will not appear until paid in full.
5. 2000-01 salary reported for retirement purposes and should include all pay for teaching, supervisory, administrative and extra curricular duties.
6. Benefit projections have been provided for most active and deferred members. The single life annuity option is only one of several payment options available to you at retirement. If you wish to have a retirement benefit projection including all payment options, or if you did not receive a benefit estimate, contact a Benefits Specialist at the TFFR office.
7. Percent of final average salary that TFFR retirement benefits replace.

8. This disability benefit projection is payable in the event you experience a long-term disability that prevents you from performing the duties of a teacher.

9. Only primary beneficiary(ies) are shown on this statement. Contingent beneficiary(ies) may be named and will be kept in your permanent retirement file. If married, your spouse must be named as your primary beneficiary unless spousal consent is given.

10. Survivor benefits are payable in the event you pass away before you begin drawing retirement benefits. If you pass away after monthly payments have commenced, your benefits will be paid out as specified by the payment option you selected at retirement.

Projections on this statement are based on current information and are subject to change. If differences exist between the information provided here and state law, the law prevails.

## Lofthus Re-appointed to TFFR Board



Paul Lofthus

Governor Hoeven has reappointed Paul Lofthus to the TFFR Board of Trustees for a five-year term. Paul has been a TFFR board member since 1997 and represents active

teachers. He also serves on the State Investment Board. Thank you, Paul, for your service to all TFFR members.

**Wishing you a warm and wonderful Holiday Season!**

*From the staff at the North Dakota Retirement and Investment Office*

## Member Handbook Mailed

You recently received a new TFFR member handbook updated with the 2001 legislative changes. Keep this handbook with your retirement records as a reference tool. The table (right) is just one example of the helpful information found in the handbook.

Years of Service	MONTHLY RETIREMENT INCOME					
	\$20,000	\$25,000	Final Average Salary \$30,000	\$35,000	\$40,000	\$45,000
5	\$167	\$208	\$250	\$292	\$333	\$375
10	333	417	500	583	667	750
15	500	625	750	875	1,000	1,125
20	667	833	1,000	1,167	1,333	1,500
25	833	1,042	1,250	1,458	1,667	1,875
30	1,000	1,250	1,500	1,750	2,000	2,250
35	1,167	1,458	1,750	2,042	2,333	2,625
40	1,333	1,667	2,000	2,333	2,667	3,000

## New Actuarial Consultant

Watson Wyatt & Company (WW) has been TFFR's actuarial consultant since 1991. On September 1, 2001, Watson Wyatt transferred its public pension plan actuarial services to the firm of Gabriel, Roeder, Smith & Company (GRS).

Fortunately for TFFR, the same team of WW consultants that provided actuarial services to TFFR in the past

are now GRS employees and will continue to provide actuarial services to TFFR.

This change should have major long-term benefits for TFFR. We will now be served by an actuarial firm that has the greatest presence and the widest areas of experience in public sector retirement plans.

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